
July 2005**COLLEGE
TEXTBOOKS****Enhanced Offerings
Appear to Drive
Recent Price
Increases**

Highlights of [GAO-05-806](#), a report to congressional requesters

Why GAO Did This Study

The federal government strives to make postsecondary education accessible and affordable, primarily by providing financial aid to students and their families. Given that nearly half of undergraduates receive federal financial aid, Congress is interested in the overall cost of attendance, including the cost of textbooks. We were asked to determine (1) what has been the change in textbook prices, (2) what factors have contributed to changes in textbook prices, and (3) what factors explain why a given U.S. textbook may retail outside the United States for a different price.

We received technical comments from the Department of Labor. The Department of Education had no comments. The National Association of College Stores generally agreed with the report's findings. The Association of American Publishers agreed with some findings but expressed concern about the data sources we used and the characterizations made by retailers and wholesalers regarding the impact of publisher practices on students. We carefully reviewed the data sources available on college textbook pricing and found the data we used to be the most complete and reliable data available for our purposes. Additionally, we sought perspectives from publishers, retailers, and used book wholesalers to ensure our characterization of the textbook industry was balanced and complete.

www.gao.gov/cgi-bin/getrpt?GAO-05-806.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia M. Ashby at (202) 512-7215 or ashbyc@gao.gov.

July 2005

COLLEGE TEXTBOOKS

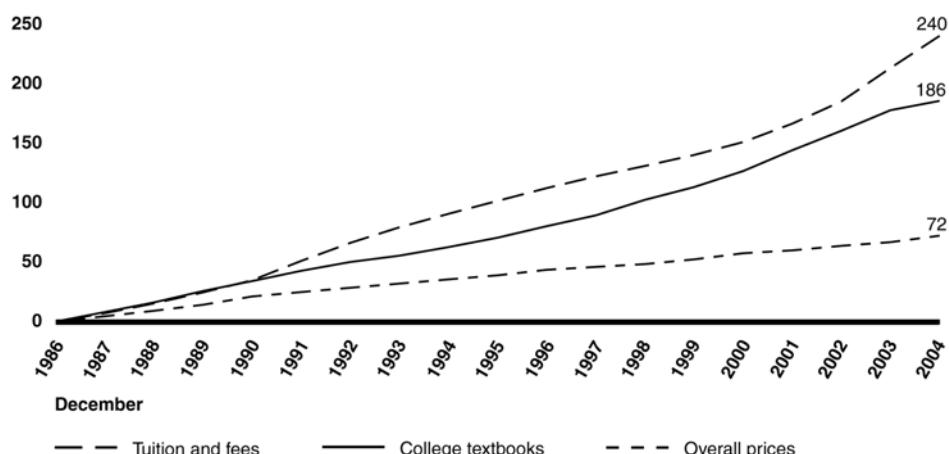
Enhanced Offerings Appear to Drive Recent Price Increases

What GAO Found

In the last two decades, college textbook prices have increased at twice the rate of inflation but have followed close behind tuition increases. Increasing at an average of 6 percent per year, textbook prices nearly tripled from December 1986 to December 2004, while tuition and fees increased by 240 percent and overall inflation was 72 percent. The cost of textbooks as well as supplies as a percentage of tuition and fees varies for first-time, full-time, degree-seeking students by the type of institution attended—72 percent at 2-year public institutions, 26 percent at 4-year public institutions, and 8 percent for 4-year private institutions.

Annual Percentage Increase in College Textbook Prices, College Tuition and Fees, and Overall Price Inflation, December 1986 to December 2004

Percent increase



Source: Bureau of Labor Statistics.

While many factors affect textbook pricing, the increasing costs associated with developing products designed to accompany textbooks, such as CD-ROMs and other instructional supplements, best explain price increases in recent years. Publishers say they have increased investments in developing supplements in response to demand from instructors. Wholesalers, retailers, and others expressed concern that the proliferation of supplements and more frequent revisions might unnecessarily increase costs to students.

U.S. college textbook prices may exceed prices in other countries because prices reflect market conditions found in each country, such as the willingness and ability of students to purchase the textbook. While geographical barriers have historically limited the reentry of textbooks intended for international distribution back into the United States, known as reimportation, recent advances in electronic commerce have broken down this barrier. In response to concerns that the international availability of less expensive textbooks might negatively affect textbook sales, publishers have taken steps to limit large-scale textbook reimportation.

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Abbreviations

AAP	Association of American Publishers
BLS	Bureau of Labor Statistics
CPI	Consumer Price Index
IPEDS	Integrated Postsecondary Education Data System
NACS	National Association of College Stores

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United States Government Accountability Office
Washington, DC 20548

July 29, 2005

Congressional Requesters

The federal government endeavors to improve access to and affordability of postsecondary education, primarily by providing financial aid to students and their families. Consequently, the overall cost of postsecondary attendance, including components such as tuition and textbooks, is of national importance because escalating costs can have negative effects on access and affordability. In academic year 2003-2004, students and their families spent over \$6 billion on new and used textbooks.¹ Given that nearly half of undergraduates receive federal financial aid and the cost of textbooks is one component considered in making these awards, escalating textbook prices can impact federal spending. Because of the impact on access, affordability, and federal spending, recent reports of escalating textbook prices and instances in which publishers sell U.S. textbooks in other countries at lower prices have heightened congressional concern and raised questions about textbook pricing practices. You asked us to determine (1) what has been the increase, if any, in textbook prices? (2) what factors have contributed to changes in textbook prices? and (3) what factors explain why a given U.S. textbook may retail outside the United States for a different price?

To quantify the change in college textbook prices, the Department of Labor's Bureau of Labor Statistics (BLS) constructed for GAO's use a Consumer Price Index (CPI) data series that shows how the price of textbooks for consumers has changed since December 1986, the earliest date for which college textbook prices are available as part of BLS's research index. In drawing samples to compute price indices, BLS defines a textbook as any book required for a course, including books intended for general readership and packages containing the textbook and related supplements when the textbook alone has not been ordered. In order to put the price of a textbook into context, we examined the cost of tuition and fees to students and their families as tracked by the CPI since 1980. We also examined data from the Department of Education's (Education) Integrated Postsecondary Education Data System (IPEDS) to gain an

¹National Association of College Stores, *2005 College Store Industry Financial Report* (Oberlin, Ohio: 2005).

understanding of the cost of textbooks and supplies (IPEDS does not disaggregate textbooks and supplies) for first-time, full-time, degree-seeking students during the course of an entire academic year, as estimated by postsecondary institutions, and the portion of the total estimated cost of tuition and fees that books and supplies represent. To determine what factors have contributed to the change in college textbook prices, we interviewed executives from five textbook publishers that account for more than 80 percent of new textbook sales; the three major national used textbook wholesalers; three companies that operate over 1,300 college textbook retail stores, or 29 percent of stores nationwide; the National Association of College Stores; the Association of American Publishers; the California and state Public Interest Research Groups; and various other industry experts. To determine what factors have led to differences in the price of some textbooks in U.S. and non-U.S. markets, we reviewed relevant economic theory and interviewed major industry players. Specifically, we spoke to representatives from textbook publishers, operators of textbook retail stores, and used book wholesalers to determine the extent to which books may be available in other countries at lower prices, and the reasons behind these price differences. A more detailed explanation of our methodology, including more information about our data sources, is in appendix I. We conducted our work between November 2004 and June 2005 in accordance with generally accepted government accounting standards.

Results in Brief

College textbook prices have risen at twice the rate of annual inflation over the last two decades, following close behind annual increases in tuition and fees at postsecondary institutions. Rising at an average of 6 percent each year since academic year 1987-1988, compared with overall average price increases of 3 percent per year, college textbook prices trailed tuition and fee increases, which averaged 7 percent per year. Since December of 1986, textbook prices have nearly tripled, increasing by 186 percent, while tuition and fees increased by 240 percent and overall prices grew by 72 percent. While increases in textbook prices have followed increases in tuition and fees, the cost of textbooks and supplies for degree-seeking students as a percentage of tuition and fees varies by the type of institution attended. For example, the average estimated cost of books and supplies per first-time, full-time student for academic year 2003-2004 was \$898 at 4-year public institutions, or about 26 percent of the cost of tuition and fees. At 2-year public institutions, where low-income students are more likely to pursue a degree program and tuition and fees are lower, the average estimated cost of books and supplies per first-time,

full-time student was \$886 in academic year 2003-2004, representing almost three-quarters of the cost of tuition and fees.

While there are many factors that affect textbook pricing, the price of textbooks has increased in recent years, according to experts we spoke with, as a result of the increase in costs associated with new features, such as Web sites and other instructional supplements. Other factors that affect pricing include production costs, availability of used books, and the demand for textbooks. Publishers say they have increased their investments in the development of supplements to meet the demands of a changing postsecondary market. For example, publishers we spoke with cited increases in part-time faculty who need additional teaching support as a key factor that has increased demand for instructional supplements. Publishers also said instructors are requesting more supplements, such as Web-based tutorials and self-assessment tools, to enhance student learning. However, wholesalers, retailers, and others suggest that while supplements may be of value to students, the increasing practice of packaging them with textbooks effectively limits the students' ability to purchase less expensive used books. Industry representatives and public interest groups also suggested that publishers are revising textbooks more frequently, and some expressed concern about the financial impact on students. Their concern is that more frequent revisions limit the opportunity students have to reduce their costs by purchasing used textbooks and selling their textbooks back to bookstores at the end of the term. While publishers generally agreed that the revision cycle for many books is 3 to 4 years, compared with 4 to 5 years that were standard 10 to 20 years ago, they said revisions were necessary to keep the materials current for faculty and to recoup their investments.

The price of a U.S. textbook may differ when the book is sold in other countries primarily because publishers price their textbooks in order to compete in local markets, and conditions exist that limit the resale of books from lower-priced markets back to the United States. Publishers told us that they produce textbooks primarily for the U.S. market and once they have incurred development costs, they can sell textbooks at a lower price in other countries because the cost of printing additional copies to sell outside the United States is relatively low. Publishers told us they price textbooks in other countries based on local market conditions, such as income levels, the extent to which students are required to purchase textbooks, and the availability of locally published textbooks. For example, publishers told us that some U.S. textbooks are priced lower in the United Kingdom because they must compete with locally produced textbooks that are less expensive. Price differences between the United

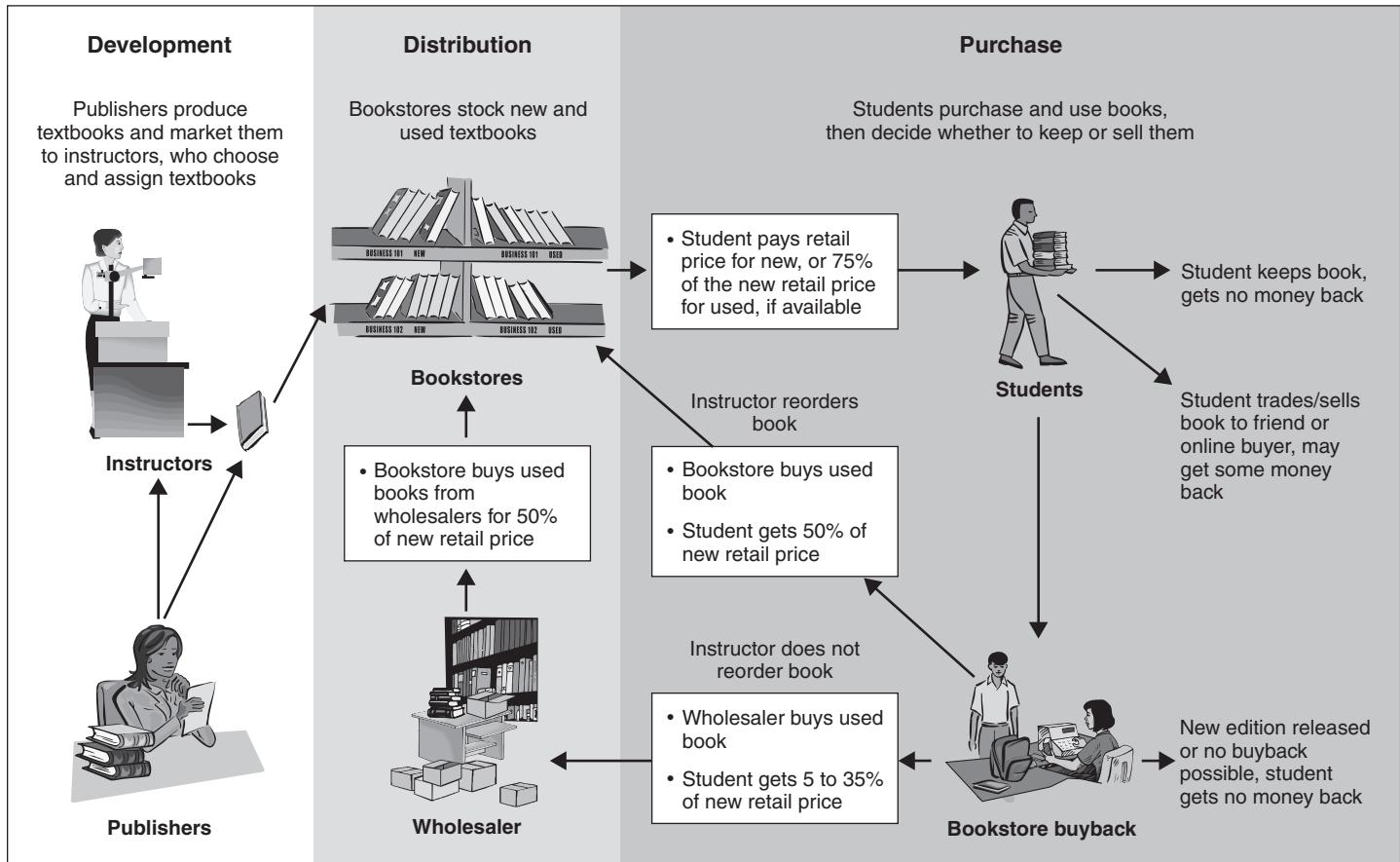
States and other countries persist because there are barriers that limit the reentry of textbooks into the United States. In some cases the cost of locating lower-priced textbooks and shipping them to the United States would result in a higher cost than purchasing them in the United States. In other cases, purchases are restricted by agreements between publishers and foreign distributors. For instance, some publishers told us that their agreements with one online retailer outside the United States limit the number of copies that can be shipped back to the United States.

We provided copies of a draft of this report to the Department of Labor and the Department of Education for review and comment. The Department of Labor provided technical comments on the use of its CPI data, which we incorporated as appropriate. The Department of Education did not have any comments. We received written comments from the National Association of College Stores (NACS) and the Association of American Publishers (AAP), the trade groups representing the companies we interviewed for this study. NACS generally agreed with our findings, stating that the report accurately portrayed the textbook industry. AAP agreed with some findings in the report, but expressed concern with respect to the data sources we used in our analyses and with characterizations provided by retailers and wholesalers on the impact of publisher practices on students. We carefully reviewed the data sources available on college textbook pricing, and found the data we used to be the most complete and reliable data available for our purposes. Additionally, we sought perspectives from publishers, retailers, and used book wholesalers, to ensure our characterization of the textbook industry was balanced and complete. Both NACS and AAP also provided technical comments, which we incorporated where appropriate.

Background

The college textbook market is complex, comprised of many publishers, retailers, and used book wholesalers. Textbooks include new and used books and can be combined with supplemental learning materials. Figure 1 illustrates the typical life cycle of a textbook and the roles of publishers, instructors, bookstores, wholesalers, and students.

Figure 1: The Typical Life Cycle of a College Textbook



Publishers develop and produce textbooks and accompanying materials for instructors and students. While there are hundreds of college textbook publishers, there has been substantial industry consolidation in recent years, with sales at five of the largest publishers representing over 80 percent of the market in 2004. Because developing a textbook involves a significant investment of time and resources, publishers carefully consider the potential risks and rewards before publishing a new textbook. Publishers consider market needs, including the size of the market and competing products. They also consider how the textbook would fit into their existing portfolios because they are more likely to publish in subject areas that complement successful existing textbooks. For example, a publisher that has successful textbooks for calculus might want to develop a textbook in an adjacent area like statistics. Publishers

may also consider what value they can add by publishing a given textbook to move beyond reproducing what is already available in the market.

Publishers direct their marketing efforts at instructors, and sometimes academic departments that make the decision about the course materials they will use and ultimately require their students to purchase. Publishers employ sales representatives who often call on instructors in person to discuss product options and provide instructors with free sample textbooks and instructional materials for consideration. Publishers also market their products at professional conferences and meetings, as well as through targeted mailings. Sales representatives typically receive a base salary and have the opportunity to earn commissions based on the volume of new course materials that are sold. They receive no compensation for materials that students purchase used.

College textbook retailers collect information about the materials instructors have selected for their courses and stock them for student purchases. Located both on and off campus, college textbook retailers are made up of a diverse group of businesses including independent booksellers, campus cooperatives, and large retail chains. The National Association of College Stores reports that about half of college textbook stores are owned by the postsecondary institution they serve and one-third are operated through lease agreements by outside companies. The companies that operate stores on college and university campuses through lease agreements typically pay a commission based on the total volume of sales to the postsecondary institutions in lieu of rent. It is not uncommon for the colleges and universities that contract with them to limit the margin on textbooks.

As bookstores receive information from instructors on the books required for the upcoming term, they determine the number of textbooks to order based on factors such as estimated enrollment and previous sales. Even with information on the number of students enrolled in the class, it can be difficult to estimate the number of books students will buy because many colleges and universities are served by more than one bookstore and students may also obtain textbooks from a variety of other sources. According to the National Association of College Stores, over 900 postsecondary institutions are served by multiple bookstores, with over 70 bookstores serving the 10 largest colleges and universities. Additionally, because students now have the opportunity to purchase their textbooks via the Internet from online retailers, no bookstore is without competition.

Retailers also attempt to make used books available to students, recognizing that many students prefer to purchase used books because they are generally less expensive. Bookstores generally buy as many used textbooks from their students as possible and then turn to used textbook wholesalers to obtain additional copies. However, the demand for used textbooks is much greater than the available supply, which is estimated to be between 25 and 30 percent of all textbooks in the market. The ability of bookstores to make used books available depends, in part, on how early they are aware an instructor will use a certain title. Receiving an order for a textbook by the end of a term increases the ability bookstores have to purchase used textbooks, particularly if the book is currently being used and they can buy back the book directly from students who have finished using it. Once the supply of used books has been exhausted, bookstores complete their orders with new textbooks from publishers. When instructors require new editions or materials that publishers have customized specifically for their course, bookstores must rely exclusively on publishers to fulfill their orders.

Wholesale companies facilitate the circulation of used textbooks by purchasing used books from retailers and directly from students to distribute to other retailers in need of used textbooks. Three major wholesale companies distribute textbooks nationally, and several smaller wholesalers distribute textbooks in specific regions of the country. Two of the national wholesalers also operate retail bookstores, and the other is tied to a retail chain through common ownership. Wholesalers have developed a complex model for determining the wholesale value of any given textbook based on factors such as demand, the available supply, and when a new edition is likely to be released. Because the supply of used books is limited and demand is high, wholesalers rank retailers in order to determine which will get first priority in receiving the used books they desire. Generally, national wholesalers give first priority to retailers that supply them with the most used books and do not return many of the books they purchase. To encourage bookstores to supply used books, wholesalers pay a commission and cover the cost of shipping the books to their warehouses.

While students have little choice over which textbooks they must purchase, they have some choice in where they buy their textbooks. Many campuses are served by multiple bookstores, and students may also be able to obtain their books through book exchanges on their campus. Advances in technology have allowed students to bypass traditional textbook outlets with expanded purchasing options online. A local bookstore may provide convenience, speed, and return options, while

online retailers and student-to-student exchanges may offer lower prices. In some cases, textbooks meant to be sold in international markets at lower prices are also available to U.S. students through online retailers.

In addition, students can sometimes offset their costs by selling back their books at the end of the term. Generally, if a book is in good condition and will be used on the campus again, bookstores will pay students 50 percent of the original price paid. If the bookstore has not received a faculty order for the book at the end of the term and the edition is still current, bookstores may offer students the wholesale price of the book, which could range from 5 to 35 percent of the new retail price. This practice allows bookstores to provide an added service to students while supporting the national availability of used books. Students can also sell their books online to a wholesaler or to an individual. However, if a new edition of the book is forthcoming, students would not generally be able to sell back the book.

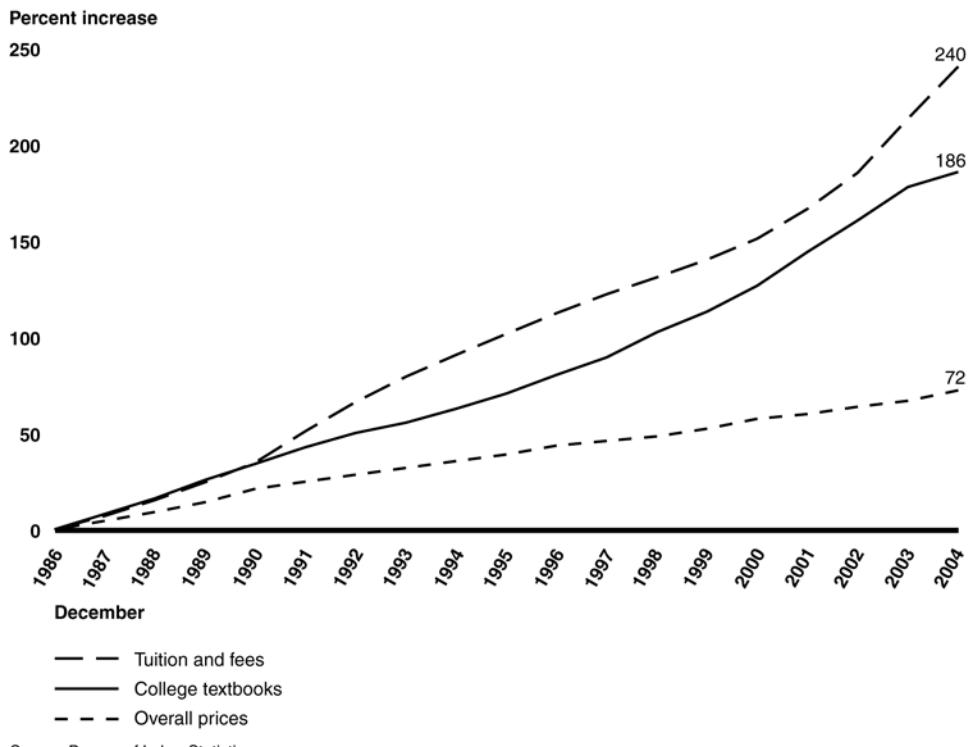
College Textbook Prices Have Grown at Twice the Rate of Inflation, Trailing Annual Tuition Increases

College textbook prices have risen at double the rate of inflation for the last two decades but have followed the trend of tuition increases at postsecondary institutions. The average growth in college textbook prices has been 6 percent per year since academic year 1987-1988, ranging from 4 percent in 1993-1994 to 9 percent in 1989-1990.² Meanwhile, tuition and fees have increased at an average of 7 percent per academic year during the same period, while overall price increases averaged 3 percent per academic year. Not only have textbook prices steadily increased each year, but the overall change in textbook prices has been substantial. According to a BLS research series on the CPI for college textbooks shown in figure 2, prices in December of 2004 were 186 percent higher than they were in December of 1986, the first month in which data were available, compared with a 240 percent increase in the cost of tuition and fees at colleges, universities, and professional schools.³ Overall price inflation was 72 percent during the same time period.

²An academic year is defined as September through August for this analysis.

³The CPI measures the average change over time in the prices paid by urban consumers for consumer goods and services, and the CPI for college textbooks measures the average change over time of the price that students and their families pay for college textbooks.

Figure 2: Annual Percentage Increase in College Textbook Prices, College Tuition and Fees, and Overall Price Inflation, December 1986 to December 2004



Source: Bureau of Labor Statistics.

Note: Data have not been seasonally adjusted.

With certain publisher packaging practices, supplementary products may sometimes be included in the price of the textbook for this index, but it is not possible with available data to determine the extent to which these practices may have contributed to price increases. The prices collected for BLS's textbook index represent new college textbook prices at colleges, universities, and professional schools at which textbooks are required.⁴ Because only the price of the textbook is collected, the prices of any supplementary materials that may be available are typically not reflected

⁴Although only new textbook prices are collected, standard industry pricing practices generally result in used book prices tracking the movement of new book prices. Wholesalers and retailers agree that the standard pricing practice for used books is to assign a price that is equal to 75 percent of the new price of the same book, so that if the new book price increases by 3 percent, the used book also increases by 3 percent.

in the index. However, if the textbook is only available at the bookstore in combination with some other course material—a practice commonly referred to as bundling—then the price of the entire bundle is collected. Officials at the Bureau of Labor Statistics told us that the practice of bundling has become increasingly prevalent in recent years. However, they told us it is not possible to determine with the information available the extent to which bundling may have contributed to increases in college textbook prices. For more information about the methodology used for constructing this index, please refer to appendix I.

Increases in college textbook prices were particularly high for the academic years 1989-1990 and 2001-2002, at 9 percent and 8 percent respectively. Since 2001-2002, the growth in textbook prices has been slowed, increasing by 5 percent in 2003-2004. Appendix II contains more details on average annual changes in textbook prices.

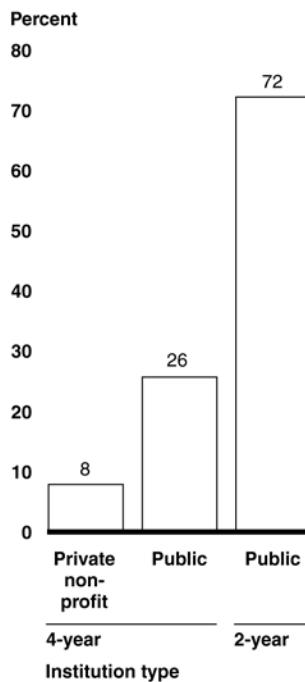
While increases in textbook prices have not followed far behind hikes in college tuition and fees, the cost of textbooks and supplies as a percentage of tuition and fees varies for degree-seeking students attending different types of institutions. According to data from Education's Integrated Postsecondary Education Data System, first-time, full-time students attending 4-year private, nonprofit colleges were estimated to spend \$850 for books and supplies in their first year, or 8 percent of the cost of tuition and fees during academic year 2003-2004, as shown in figure 3.⁵ In contrast, first-time, full-time students paying in-state tuition at 4-year public colleges or universities were estimated to spend 26 percent of the cost of tuition and fees on books and supplies, or \$898, during the same period. At 2-year public colleges, where low-income students are more likely to begin their studies and tuition and fees are lower, first-time, full-time students are estimated to spend 72 percent of the cost of tuition and fees on books and supplies.⁶ Specifically, 2-year public colleges estimated that their first-time, full-time students would spend about \$886 in 2003-2004 on books and supplies. In 2002-2003, the last year for which

⁵We did not validate the methodology the institutions used to derive these estimates. These estimates are gross, that is, they do not estimate what students might receive if they resell their books. Because retailers may pay up to 50 percent of the retail price for used textbooks, students' net costs may be reduced substantially. Also, while these figures include the cost of supplies, we cannot disaggregate those cost from the totals. More detail on Education's definition of supplies is in appendix I.

⁶Estimates for 2-year students are for students who are legal residents of the locality in which they attend school and thus receive any reduced tuition charges that may be offered by the institution.

enrollment data are available, students attending 2-year public colleges represented 42 percent of all postsecondary students.

Figure 3: Estimated Cost of Textbooks and Supplies as a Percentage of Tuition and Fees, Academic Year 2003-2004



Source: Department of Education.

Publisher Investments in New Products Have Contributed to Increases in Textbook Prices

While publishers, retailers, and wholesalers all play a role in textbook pricing, the primary factor contributing to increases in the price of textbooks has been the increased investment publishers have made in new products to enhance instruction and learning according to industry executives we interviewed. In particular, publishers point to the high cost associated with the development of technology applications that supplement traditional textbooks. Publishers told us they have made these investments to meet changing needs of higher education, such as the increase in part-time faculty who require greater instructional support and supplements that will enhance student learning of the subject matter. While wholesalers, retailers, and others do not question the quality of these materials, they have expressed concern that the publishers' practice of packaging supplements with a textbook to sell as one unit limits the opportunity students have to purchase less expensive used books. Additionally, wholesalers, retailers, and others have expressed concern

about how certain publisher practices, such as revising textbooks more frequently and increasing the availability of custom publishing options for instructors, have affected their ability to help students save money by providing used textbooks and buyback services.

How Textbooks Are Priced

Publishers set the net price, or the price bookstores pay publishers to obtain the textbook, based on development and production costs, expected sales, and competition from comparable products available in the market. While the amount spent on development and production varies across publishers and specific titles, the publishers to whom we spoke underscored the substantial investments they make before a single textbook is sold. These include the cost of author advances, the development of content for the textbook and supplements, copyrights and permissions for illustrations and photographs, along with the cost of typesetting and printing enough copies to provide sample copies and cover expected sales.

In estimating expected sales of textbooks, publishers must consider the size of the overall market for a given textbook, the amount of market share they can reasonably capture based on the availability of competing products, and the availability of used books in subsequent years. The publishers we talked to focus heavily on publishing textbooks for introductory-level courses because the market is larger, even though competition for market share tends to be greater. Publishing in smaller markets can still be attractive, though, according to one publishing executive, because publishers may be able to attain greater market share, as there are generally fewer competing titles. Regardless of the market for a particular textbook, publishers told us that new textbook sales are highest in the first year an edition is available, with sales declining each year as the supply of used books becomes greater.

Publishers told us that they must price their textbooks based on what similar textbooks in the market are selling for, even if it will not generate enough revenue to offset their costs or they could lose sales to more competitively priced products. As a result, publishers noted that textbooks may not realize a profit in the first year of publication. Publishers told us that they are willing to take this financial risk because of the long-term rewards they expect for successful textbooks.

While each college store determines its own pricing model, many utilize a similar approach for determining the price of new and used textbooks. Bookstores set the retail price to ensure a certain percentage of the selling

price goes to the bookstore. This percentage, commonly referred to by retailers as the margin,⁷ covers bookstore costs and may allow the store to realize a profit. While the margin may vary at different individual bookstores, the average margin on new college textbooks among stores reporting to the National Association of College Stores is about 23 percent.⁸ The margin on used textbooks, however, is typically higher. Used textbook prices are directly linked to new textbook prices as retailers and wholesalers typically follow a traditional pricing practice. According to this practice, retailers purchase used books from wholesalers at 50 percent of the new retail price and in turn charge students 75 percent of the new retail price to purchase the book. This pricing practice results in a 33 percent margin on used books for bookstores. Table 1 illustrates the typical pricing practice for a new and used textbook. College bookstores justify higher margins on used textbooks based on increased inventory risks and resources involved in preparing the books for resale.⁹

Table 1: Illustration of Typical Textbook Pricing Practice for \$100 Publisher-Priced Book

	Net price	Retail price	Price increase	Margin (price increase ÷ retail price)
New textbook	\$100	\$129	\$29	23%
Used textbook	\$65	\$97	\$32	33%

Source: GAO analysis.

Note: Prices rounded to the nearest dollar.

⁷Two terms, *markup* and *margin*, are commonly used to describe the difference between the net (or publisher) price and the retail price of textbooks. Publishers commonly refer to the markup, or the price increase relative to the publisher price, while college bookstores typically refer to the margin, the percentage of the retail price that they keep.

⁸National Association of College Stores, *2005 College Store Industry Financial Report* (Oberlin, Ohio: 2005).

⁹For example, buying back books from students represents an inventory risk because it requires a substantial financial investment, which bookstores cannot recoup until they sell the books to another student or a wholesaler.

Publishers Have Developed New Product Options to Meet Perceived Needs of Instructors and Students

The factors that publishers consider in determining the price of their textbooks has not changed over time, but the nature of offerings from higher education publishers has changed in recent years. Publishers say they have invested heavily in developing additional textbook supplements for instructors and students, particularly resource-intensive technology applications, and ensuring that the content they provide is updated with the most current pedagogy and examples. Publishers told us they are making these investments in response to the changing needs of the higher education community and to remain competitive in the marketplace. While supplements are not new, publishers told us the number and variety of supplements available for a given textbook have increased substantially in the last 10 years.

Even though there has been widespread consolidation among textbook publishers over the last 20 years, publishers characterized the textbook market as intensely competitive and said this competition drives what products they offer and ultimately how they price their textbooks. Because the adoption process in which instructors select the textbooks and materials they wish to use in their courses is central to ensuring sales, publishers told us that they focus their efforts on developing textbooks and accompanying materials that will meet the diverse needs of instructors and their students. To ensure their products are appealing to instructors, publishers say they must offer a wide range of materials that accommodate a variety of teaching and learning styles. Publishers fear that if they are unable to keep up with offerings of their competitors they will lose adoptions and ultimately market share. One industry analyst we spoke to speculated that the consolidation of publishers and a lack of new entrants are largely factors of the enormous investments required to compete in the marketplace. The analyst said that by consolidating, publishers may gain economies of scale and spread their overhead and other costs across more titles.

Publishers say the investments they are making in product development are largely in response to changes in higher education that have resulted in publishers playing a more central role in facilitating instruction and learning. For example, publishers have always provided no-cost instructional supplements to help faculty teach their courses, but these offerings have intensified in recent years. In particular, publishers told us that the increased demand for instructional technology applications has resulted in high development costs. They say that since the advent of the Internet, postsecondary institutions have made substantial investments in technology and increased their expectations for instructors to make use of technology in the classroom. In response to this demand, publishers have

invested millions of dollars in developing content that can be delivered via technological applications, such as Web sites and CD-ROMs, to accompany their textbooks. Some of these applications are designed to help instructors be more effective in the classroom, while others are intended for student use to enhance their learning of the material.

Publishers told us that they have tailored their instructional supplements to enhance instructor productivity and teaching, largely to meet the needs of instructors in an environment of funding cuts. Publishers say tools designed to enhance instructor productivity are in demand because reductions in the number of teaching assistants available to help instructors have increased the administrative burden for instructors. For example, publishers have developed online homework and quizzes that allow instructors to track student progress quickly, saving instructors time. The homework and quizzes students complete online can be graded immediately to provide both the instructor and students with immediate feedback on performance. The need for greater teaching support is another area in which publishers told us there has been increased demand, stemming largely from a reduction in the employment of full-time tenure track faculty at institutions across the country. Publishers say they are now providing more extensive curricular support including lesson plans, homework sets, multimedia lectures, and even workshops on specific teaching approaches. While these materials are provided at no cost to instructors, the cost of developing them is built into the price of the textbook.

Publishers also described a wide array of supplements that faculty can adopt that are intended to enhance student learning and success in the course. Publishers say there is a growing demand for these products because the number of students who are unprepared for college-level work has been increasing. Student supplements are either sold separately or bundled with the textbook, but the bulk of the development costs are typically built into the price of the textbook, according to publishers. While publishers produce print supplements, such as study guides and solutions manuals to accompany their textbooks, technology content represents the area in which publishers say they are investing more substantially. For example, one publisher told us the company had invested over \$1 million in the development of a CD-ROM that provides three-dimensional images to enhance learning in anatomy. In the short term, these investments are very costly for publishers, but publishers are predicting increased demand for these products over time, with more content delivered digitally. Electronic content is appealing to publishers because sales of these products would be less affected over time by the

used textbook market than print products, which can more easily be bought and sold in the used textbook market. Specifically, passwords to restricted access Web sites cannot be resold, and there is no national used market for other types of electronic products, such as CD-ROMS and software, because retailers and wholesalers cannot easily verify that the products are functional once they have been used.

Wholesalers, Retailers, and Others Express Concern That Some Publisher Practices May Unnecessarily Increase Costs to Students

Concerns about Bundling

Wholesalers, retailers, and some public interest groups acknowledge that publishers are making substantial investments to develop textbooks and supplementary materials, but they have expressed concern about the impact some publisher practices may have on student costs. In particular, they think some of the strategies employed by publishers, such as bundling textbooks with supplements and revising textbooks more frequently, may limit the ability students have to decrease their costs by purchasing less expensive used textbooks.

Wholesalers, retailers, and some public interest groups agree that there has been a proliferation of supplements in recent years, and they have expressed concern about the increasing practice of selling supplements and textbooks bundled together in a package. While wholesalers and retailers do not question the quality of these materials, they suggest the practice of combining these supplements with textbooks limits students' ability to reduce their costs by purchasing less expensive used books and choosing which, if any, supplements they want to purchase. Retailers told us that when bundling started becoming more common, it became difficult for them to obtain supplements separately from publishers to provide students the option of buying a used book and selected supplements. Though publishers say that most supplements are now available separately, retailers said that because publishers often discount bundles, most of the savings students could expect from purchasing a used textbook would be negated if they bought the supplements separately. For example, a new book may be bundled with an access code to a companion Web site at no additional cost to the student. Students who choose to buy a less expensive used textbook will have to purchase the access code separately, but the combined cost of the used book and the access code will be similar to the price of the new course materials sold in a bundle. One retailer also noted that publishers assign every product a unique identification number, whether sold individually or bundled. Because the identification number for a bundle varies based on the specific combination of materials included in the package, the retailer told us it can be difficult to identify the individual components in the bundle to order them separately from publishers or, when available, through the

used textbook market. Publishers note, however, that the standard industry practice of assigning each bundle a unique identification number is intended to make it easy for students, retailers, and wholesalers to obtain a complete description of the bundle's contents by entering the identification number online.

Publishers told us that textbook sales representatives work to identify materials that will best meet a given instructor's needs and generally bundle course materials with the textbook when the instructor desires it. However, retailers said that instructors are often unaware that the course materials they selected will come bundled, based on routine follow-up discussions that stores have had with instructors. Retailers told us that many instructors want the supplements to be available for their students but also want students to have the option of buying a used book. However, some publishers say that the discounts available on bundles are a selling point with instructors, along with the assurance that students will purchase the correct course materials.

While publishers typically allow retailers to return new textbooks that are not sold without penalty if the textbooks are in new condition, when course materials are bundled together they can be returned only if the seal is unbroken. Retailers explained that their stores offer generous return policies to accommodate students who, for example, buy the wrong course materials or drop a course. If a student has broken the seal of the bundle, retailers say they will not be able to return the materials to the publisher for a refund. One retailer told us that its stores will generally accept returns of unsealed bundles to minimize ill will with students but that they would have to absorb the return as a loss.

Some publishers acknowledged that there has been resistance to the practice of bundling, and some told us they are now more carefully considering when bundling may be appropriate. While the practice is designed to provide students with greater value, publishers understand that students must perceive that value for a bundle to sell. Publishers say they are also beginning to understand that as students may be sensitive to high prices, they must strike a balance between quality and price. For example, one publisher provided an example of a bundle that did not sell well because the number of components increased the price beyond what students were willing to pay. While the publisher knew that the textbook and the individual components would retail separately for much more, students perceived the price as too high. Publishers also told us that bundling is most effective when instructors make use of all the materials included in the bundle and stress their importance to students. Publishers

Concerns about the Frequency of Revisions

understand that when students spend money for course materials that are never used they may perceive the purchase as unnecessary.

Industry representatives and some public interest groups also suggested that publishers are revising textbooks more frequently, and some expressed concern about the financial impact revisions have on students. Retailers and wholesalers told us that because instructors typically use the most current edition of textbooks in their courses, the previous edition becomes obsolete once a new edition is released. Once retailers and wholesalers learn of a pending new edition, typically several months in advance of the release date, they said the buyback value drops rapidly to zero. Once a new edition is released, retailers say they generally cannot buy back an old edition from students, a practice that helps students reduce their costs.

Publishers agreed that the revision cycle for many books has accelerated over time, but most said that it has been stable in recent years. While textbook revision cycles can vary based on several factors, such as the level of the course and the discipline, publishers told us that textbooks are generally revised every 3 to 4 years, compared with cycles of 4 to 5 years that were standard 10 to 20 years ago. Publishers say that the revision cycle is driven by instructors who want the most current material and may seek products from competitors if they are unable to meet the demand. Publishers cited a recent poll of 1,029 college professors commissioned by the Association of American Publishers that found that 80 percent of those polled think it is important that the material in the textbook be as current as possible.¹⁰ However, this may not be universal across disciplines. For example, over 700 mathematics and physics instructors from 150 universities across the country have petitioned one publisher to delay revisions until there have been substantial changes in content or teaching methods that merit revision.¹¹

Publishers noted that while not every revision results in substantial content changes, revisions must also be made for other reasons, such as changing teaching methods. For example, one publisher cited a teaching

¹⁰Zogby International, *The Attitudes of College Faculty on the Textbooks Used in Their Courses* (Utica, New York: December 2004).

¹¹As part of the state Public Research Interest Group's efforts to advocate for lower prices for students, a number of faculty members signed a letter dated April 2004 calling on one publisher to change certain practices.

approach from the 1980s that has regained popularity in calculus. Revisions may be based on current events, such as including recent accounting scandals in textbooks for business law and ethics courses, or recent elections in political science textbooks. Publishers told us that changes in industry standards that are relevant to a discipline may also necessitate out-of-cycle revisions or updates, such as pronouncements issued by the Financial Accounting Standards Board for accounting textbooks.

Some wholesalers and retailers think that the revision cycle for some textbooks has the effect of limiting the used market. For example, retailers and wholesalers have observed that books for introductory-level classes are on a shorter revision cycle than other books, possibly because there is a greater supply of used books, as students are less likely to keep them. One publisher we talked to said that books for introductory classes are typically revised more frequently because demand for current content and technology applications is greater in these courses. Most publishers maintain that their decisions to revise a book are based on factors other than sales patterns. However, one publisher we spoke with said that the current revision cycle at the company is tied to the pattern of sales revenues, which all publishers agreed decline the longer the textbook is on the market and more used copies become available. Publishers estimated that in the second year of an edition they might sell 25 percent to 70 percent of the textbooks that were sold in the first year, depending on level and discipline. Moreover, publishers say that they count on textbook revisions to recoup the initial investment costs of developing the textbook. They told us that first-edition textbooks are highly risky and that only about 20 to 30 percent of their first-edition textbooks are ever revised. However, they said that they are willing to take on this risk based on the long-term rewards they expect to receive from successful textbooks that are revised.

Concerns about Other Publisher Practices

Wholesalers, retailers, and some public interest groups have also raised concerns about other publisher practices that may limit students' ability to purchase used textbooks, such as custom publishing, which allows instructors to customize their course materials by adding or deleting chapters from a single textbook or multiple textbooks. According to publishers, technological advances have made the practice more cost-effective and the adoption of custom materials has been increasing. Publishers say that custom publishing appeals to instructors because it allows them to consolidate material from multiple sources into one textbook for their students. Publishers also think it provides students with good value because instructors are more likely to use all of the material

they select. Because the price of custom publishing is based on the content, the price of custom textbooks may be lower than for a traditional textbook, according to publishers. For example, students might pay less for one custom textbook than they would for several books the instructor might have required if customization was not available. Some publishers also observed that sales of custom materials tend to be better because instructors are committed to using all of the material, and there is no national used textbook market for them.

Retailers and wholesalers said that because there is no resale market for a given custom textbook outside the campus where it was originally used, students may lose out on the ability to save money by buying used books and selling them back at the end of the term. One retailer expressed particular concern about a few specific instances in which textbook covers had been customized with the mascot or logo of a specific institution, but the content of the textbook was the same. Because these textbooks are designed for a specific campus and have a unique identification number, there is no national used market for them. In addition, retailers say that publishers place strict return limits—typically 10 percent—on custom textbooks, even though traditional textbooks are usually fully returnable to the publisher. As a result, retailers say that they have to carefully balance their commitment to carrying an adequate supply of custom materials for students against the risk of exceeding the return limit if they do not sell enough copies.

Wholesalers, retailers, and others are also concerned about the long-term cost implications for students that may result from publisher practices to provide lower-cost alternatives to the traditional textbook. Among these alternatives are loose-leaf textbooks that are designed to be placed in a binder and electronic textbooks that are available for purchase online. While these options may save students money initially, wholesalers and retailers are concerned about the long-term cost implications for students. For example, students may initially pay less for a loose-leaf textbook than they would for a textbook that is bound, but wholesalers and retailers said students would be unable to sell a loose-leaf book back because it is not possible to determine whether all the pages are intact. With electronic textbooks, students may pay about half of the price of a new textbook for password-protected access to an online version of the textbook. Until the password expires, students can access the textbook as many times as they wish, either reviewing the chapters online or printing a hard copy. Some public interest groups initially embraced the idea of electronic textbooks but now point out that students may run into technical difficulties if they have to rely on Internet access. Additionally, because access to the

textbook may expire, students may not have the option at the end of the term to keep the textbook. According to publishers, electronic textbooks have not caught on with students, and sales of these products have been unsuccessful.

The Price of U.S. Textbooks Sold in Other Countries Varies according to Local Market Conditions

College textbook prices in the United States may exceed prices in other countries because textbook publishers assign prices that reflect the market conditions found in each country. The demand for textbooks can vary across countries because of, for example, differences in income levels or in the classroom role of textbooks. Publishers typically incur substantial costs in order to develop textbooks, but once these development costs have been undertaken, the additional cost of producing more copies is quite low. As a result, a publisher may be able to profitably sell textbooks in one country at prices that are closer to actual costs of printing and distributing additional copies while charging higher prices in the United States that reflect the substantial development costs undertaken. Two factors are typically cited as enabling a seller, such as a publisher, to profitably charge different prices to different buyers, such as textbook buyers in different countries. The seller must be able to distinguish among groups with differences in their willingness and ability to pay a given price, and the ability for these groups to buy and sell among one another must be restricted. Traditionally, the geographical separation of markets has made it difficult for U.S. students to acquire lower-priced textbooks from other countries. More recent developments in Internet commerce have reduced the costs for buyers in the United States to acquire textbooks from other countries, causing publishers to reexamine their distribution arrangements.

Varying Local Market Conditions and Barriers to Importation Help Explain Textbook Price Differences between the United States and Other Countries

Textbook publishers told us that college textbooks are developed primarily for sale in the United States, based on cost considerations and demand forecasts for the North American market, but that they sell textbooks in other markets when there is international demand. Textbooks developed for certain academic disciplines are more likely to have broader international appeal than others, according to publishers. For example, the content found in many mathematics, science, and engineering textbooks is essentially global in its applicability. However, the content found in textbooks used in other disciplines, such as political science, may pertain much more specifically to U.S. experiences, institutions, or culture. If international demand for a textbook exists, publishers may sell the same textbook that is sold in the United States, an international edition produced with less expensive materials, or an

adaptation of the textbook that includes locally relevant examples. In international markets where the primary language spoken is not English, publishers may sell the rights to translate the textbook into the local language.

In assigning prices to the different versions of U.S. textbooks sold in the international marketplace, publishers told us that they consider local market conditions and the willingness and ability of students to purchase the textbook. As there can be significant intercountry differences in the demand for textbooks, publishers told us that they make country-by-country and book-by-book distribution and pricing decisions. Specifically, publishers told us that factors they consider in making pricing decisions are income levels, the cost of living, the role of the textbook in the classroom, intellectual property protections, the strength of the local currency, and the prices of competing textbooks sold in that marketplace. In some cases, international prices may be substantially lower than prices at which the textbook is sold in the United States, while in other cases, they may be the same as or higher than U.S. prices. For example, publishers told us that in many developing countries, incomes are generally too low for students to buy textbooks at U.S. prices. However, in areas where the cost of living is generally higher than in the United States, such as in Scandinavian countries, textbook prices may be higher.

Publishers told us that they have to be particularly concerned about pricing at a level that is affordable to students in developing countries because of the threat of piracy in these countries. Although they already grapple with piracy in many of these markets, publishers say that even fewer legitimate copies would be sold in these markets if prices were too high. According to publishers, some countries do not have a strong commitment to intellectual property protections, but governments have been more responsive in dealing with piracy cases when textbooks are priced at a level that local students can afford.

In addition to income levels, differences in instructional styles and systems of higher education influence publishers' pricing decisions. For example, publishers told us that even though average income levels are high in the United Kingdom, textbooks tend to sell for lower prices than in the United States because the demand for textbooks is lower. Specifically, they said that instructors in the United Kingdom are more likely to recommend several textbooks for students to consider, rather than requiring a specific textbook. Additionally, publishers told us that there is less demand for electronic and print supplements to support teaching and learning in non-U.S. markets. Publishers also told us that because higher

education funding tends to be highly subsidized in the United Kingdom and European countries, students may not be willing to pay out-of-pocket costs for textbooks at U.S. prices. According to publishers, textbook prices in Canada and Australia tend to be similar to those in the United States because the instructional styles are similar in that instructors select specific textbooks for their classes. However, publishers noted that in these markets there is also greater demand for U.S. textbooks that have been adapted to the local culture or economy.

The National Association of College Stores has criticized the practice of differential pricing, or the publisher practice of charging lower prices in some countries, saying that it is unfair for U.S. students to pay more for the same textbooks. However, the practice of differential pricing is not exclusive to textbook publishing and occurs both within and outside the United States. For example, GAO has reported on differential pricing in the airline industry, where business travelers typically pay much higher fares than leisure travelers.¹² Likewise, we have reported on differential pricing of prescription drugs in the pharmaceutical industry.¹³ Publishers can afford to sell textbooks at prices that are sometimes lower outside the United States because once development costs have been incurred for the U.S. market, the incremental cost of producing additional copies for the international market is low. This allows publishers to sell textbooks in other countries at prices that are closer to printing and distribution costs while charging prices in the United States that better reflect the high costs of development. The publishers we talked to estimated that international sales make up from 5 to 15 percent of their total revenues. Some publishers speculated that without the added revenues from international sales, they would feel more cost pressure and would have to either increase U.S. prices or invest less in certain products.

In order for international pricing differences to persist, there must be barriers that limit mass importation of less expensive U.S. textbooks from other countries. Such barriers ensure that individuals and businesses purchase from the intended distribution channels and insulate students

¹²GAO, *Aviation Competition: Restricting Airline Ticketing Rules Unlikely to Help Consumers*, [GAO-01-831](#) (Washington, D.C.: Jul. 31, 2001).

¹³GAO, *Prescription Drugs: Companies Typically Charge More in the United States than in Canada*, [GAO/HRD-92-110](#) (Washington, D.C.: Sept. 30, 1992); and GAO, *Prescription Drugs: Companies Typically Charge More in the United States than in the United Kingdom*, [GAO/HEHS-94-29](#) (Washington, D.C.: Jan. 12, 1994).

from awareness of price differences in other countries. Historically, the geographic separation of countries served as a natural barrier preventing such trade from occurring. Geographic distances and lack of information made it difficult for individuals or businesses in the United States to save money on textbooks by purchasing lower-priced textbooks in other countries and having them shipped to the United States, a practice commonly referred to as reimportation. However, recent technological developments in electronic commerce have diminished the effects of this natural barrier, increasing awareness of prices in other countries and making it easier for students and retailers to purchase lower-priced textbooks from international markets.

Publishers Have Taken Recent Steps to Limit the Reentry of Their Textbooks into the U.S. Market

Retailers and publishers have expressed concern about the reimportation of lower-priced textbooks from international locations. Specifically, they cited the ability students have to purchase books from online distribution channels outside the United States at lower prices, which may result in a loss of sales for U.S. retailers. Additionally, the availability of lower-priced textbooks through these channels has heightened distrust and frustration among students regarding textbook prices, and college stores find it difficult to explain why their textbook prices are higher, according to the National Association of College Stores. Retailers and publishers have also been concerned that some U.S. retailers may have engaged in reimportation on a large scale by ordering textbooks for entire courses at lower prices from international distribution channels. Concerned about the effects of differential pricing on college stores, the National Association of College Stores has called on publishers to stop the practice of selling textbooks at lower prices outside the United States.

Publishers told us that they intend for the textbooks they distribute in other countries to be sold for use in those countries, not for resale to the United States, and so have taken recent actions to limit large-scale reimportation. Most of the publishers with whom we spoke say they are particularly concerned about the actions of foreign distributors and U.S. retailers that may result in large-scale reimportation of textbooks. As a result, publishers told us they have taken recent steps to limit the reimportation of textbooks in large quantities. Specifically, publishers told us that they have strengthened their agreements with foreign wholesalers to prevent the large-scale sale of U.S. textbooks back to the United States. Some publishers also said they have made an agreement with an online retailer outside the United States to limit the number of copies of a given textbook that can be delivered to a single U.S. address in one order. Because these measures target large-scale reimportation of U.S. textbooks

from international sources at lower prices, they will not prevent U.S. students from purchasing single copies of textbooks from international sources.

Concluding Observations

College textbook prices have risen steadily, along with tuition and fees, and appear to have been largely driven by investments in supplements. While price increases have resulted in increasing costs for students and their families, they reflect a change in the characteristics of postsecondary education. Just as teaching and learning have changed with increasing reliance on technology, the college textbook has evolved from a stand-alone text to include a variety of ancillary products designed to enhance the educational experience for instructors and students. By increasingly becoming involved in the development of instructional aids, publishers are assuming roles that have traditionally belonged to postsecondary institutions. If publishers continue to increase these investments, particularly in technology, the cost to produce a textbook is likely to continue to increase in the future.

Although changes in the nature of college textbooks are evident, it is difficult to assess the impact of these changes on students. Instructors can now select from a much wider variety of supplements to tailor their courses to the needs of their students, but these additional textbook offerings may come at an increased cost to students. While textbook prices have risen with tuition costs, these costs can vary greatly depending on the type of institution a student is attending. Because textbooks may represent a substantial portion of the cost of tuition and fees for students attending some public institutions, any increase in textbook prices may affect affordability and access disproportionately for some students. Consequently, while students may benefit from the advances in textbook supplements, they may not feel the price increases are justified relative to what they spend on tuition. Students may also think the amount they have to pay for their textbooks is unfair, especially if some of the same textbooks are available at lower prices outside the United States.

Because the cost to students may not be the primary factor considered when publishers are developing textbooks that students are ultimately required to buy, the rate of textbook price increases is not likely to slow. Students may lower their costs by purchasing used textbooks and may search for lower-priced textbooks from online sources, including international retailers, and directly from other students. However, these options are unlikely to provide a sustainable source of lower prices because the supply of these textbooks is limited and international prices are subject to change. In addition, because publishers, wholesalers, and

many retailers are profit-seeking firms, any widespread action that would lower costs to students at the expense of profits would be met with changes in their business practices, such as changing distribution patterns.

Agency Comments

We provided copies of a draft of this report to the Department of Labor and the Department of Education for review and comment. The Department of Labor provided technical comments on the use of its CPI data, which we incorporated as appropriate. The Department of Education did not have any comments. We also sought comments on our characterization of the textbook industry from the National Association of College Stores and the Association of American Publishers, the trade groups representing the companies we interviewed for this study.

NACS generally agreed with our findings, stating that the report accurately portrayed the textbook industry. NACS also provided technical comments that we incorporated as appropriate. NACS's comments appear in appendix III.

AAP agreed with some findings in the report but expressed concern with respect to the data sources we used in our analyses and the tone and objectivity of the report.

With respect to the data sources we used, AAP expressed concern about the limitations of the data we used in determining textbook price increases over time, and the proportion of tuition and fees that spending on textbooks and supplies represent for students at different types of postsecondary institutions. AAP also suggested alternative data sources for addressing these issues, but we found that they were not sufficiently reliable for our purposes.

While AAP disagreed with our use of CPI data from BLS, these are the most complete and reliable data on textbook prices available. Further, we clearly disclose the limitations and definitions of the CPI data in the report. AAP's claim that BLS data do not capture the "penetration of lower-cost alternatives" is not accurate. The college textbooks CPI is an index designed to capture the prices of assigned textbooks. To the extent that lower cost alternatives are assigned, they would be fully reflected in BLS's index. AAP also suggested that the availability of alternative data from Student Monitor that differ substantially from the BLS data call into question our decision to use BLS data as a sole source. We disagree because the two data sources are not comparable. Student Monitor data are measuring annual changes in student spending, while BLS data measure annual price changes.

AAP also expressed concerns about the use of Education's IPEDS data, in particular that estimates are for textbooks and supplies and that we did not validate the estimates postsecondary institutions provided. We use IPEDS data because they are the most complete data available on estimated student spending. As we state in appendix I, we tested IPEDS for reliability and note that other available data sources are not as complete or reliable. AAP also questions the appropriateness of measuring estimated spending on textbooks and supplies as a percentage of tuition. We present these data to provide perspective on college affordability—a primary federal policy concern. To address AAP's concerns about what constitutes supplies, we have noted in appendix I that supplies are defined as usual costs incurred by a majority of students. AAP also expressed concern that in discussing estimates of student spending on textbooks, we did not take into account the extent to which students lower their costs through buyback. We have added this context where we discuss costs to students.

AAP also provided additional data sources for consideration and expressed concern that deadlines prevented us from giving these sources appropriate consideration. We considered other sources available that provide estimates of student spending. Time was not a factor in our decision not to use the data, but rather we found these sources to be not as complete or as reliable as the IPEDS data. Student Monitor, one of the sources suggested by AAP, provides market research for those targeting college students as a consumer group. Student Monitor employs a nonprobabilistic sampling methodology using an intercept-based quota sample of 1,200 students covering 100 colleges and universities. Because of the sample selection process used, it cannot be used to estimate to the college student population as a whole for the purpose of addressing a key finding. Other industry sources AAP suggested provide estimates on the total size of the market, but they cannot be used to provide representative estimates on student spending for textbooks.

AAP expressed concern about the tone and objectivity of the report, particularly the characterizations of retailers and wholesalers on the impact of publisher practices on students. In most instances we had already discussed issues raised by AAP in other sections of our report. AAP took issue with comments made by wholesalers and retailers regarding the impact of textbook revisions, bundling, and custom publishing on students' ability to pursue lower-cost, used textbooks. We specifically provide information on the views of wholesalers and retailers to add balance and include more perspectives in our report. We provide publisher perspectives on why they revise textbooks and characterize why and how the revision cycle has changed over the last two decades. We

also extensively discuss in our report publisher perspectives on supplements, bundling, and other options, such as custom publishing, while capturing publisher views regarding their benefits. Wholesalers and retailers provided a different perspective on these practices as they relate to potential costs to students, which we captured in our report.

More generally, GAO's approach to this study was to rely primarily on publishers to provide information on how they price textbooks and gain their perspectives on the factors that influence price changes. We also sought out other experts in the field, including retailers and wholesalers, to better understand how students obtain textbooks and what factors affect the cost to the student. Retailers and wholesalers did not place blame on publishers but pointed out the impact of some publisher practices on students. We do not place any blame in our report on the publishers and do in fact note that they offer a variety of options for students, sometimes at a discount. We also note in our report that faculty have primary responsibility for determining what students are required to buy.

AAP stated in its letter that it agreed with the findings related to international price differences and the report's concluding observations. AAP also provided technical comments, which we incorporated as appropriate. AAP's comments appear in appendix IV.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to the congressional committees and subcommittees responsible for the Higher Education Act, the Secretary of Education, the Secretary of Labor, and other interested parties. Copies will also be made available to others upon request. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me on (202) 512-7215. Key contributors to this report are listed in appendix IV.

Cornelia M. Ashby

Cornelia M. Ashby
Director, Education, Workforce,
and Income Security Issues

List of Requesters

The Honorable George Miller
Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

The Honorable Dale Kildee
Ranking Minority Member
Subcommittee on 21st Century Competitiveness
Committee on Education and the Workforce
House of Representatives

The Honorable Major Owens
Ranking Minority Member
Subcommittee on Workforce Protections
Committee on Education and the Workforce
House of Representatives

The Honorable Dennis Cardoza
The Honorable Raul Grijalva
The Honorable Maurice Hinchey
The Honorable Dennis Kucinich
The Honorable Carolyn McCarthy
The Honorable Betty McCollum
The Honorable Michael McNulty
The Honorable Donald Payne
The Honorable Bobby Rush
The Honorable Tim Ryan
The Honorable David Wu
House of Representatives

Appendix I: Objectives, Scope, and Methodology

To determine the extent to which textbook prices have changed over time, we reviewed college textbook pricing data from the Bureau of Labor Statistics' Consumer Price Index (CPI).¹ The CPI measures the average change over time in the prices paid by urban consumers for consumer goods and services, and in the case of textbooks represents an index of change over time of the retail price of college textbooks, or the price that students and their families pay. While college textbooks have been included in the CPI since 1964, data on textbooks in the Bureau of Labor Statistics' (BLS) research database only go back to 1986, when BLS collected textbook prices as part of an index on the price of books and supplies. The agency began publishing a separate CPI series on textbooks in 2001. Using these data, BLS constructed an unpublished research series on college textbooks for GAO for the period of December 1986 through December 2004. The index was compiled from three separate index series, as outlined in table 2. The implications on the index of these differences in methodology are discussed below.

Table 2: Source and Methodology for CPI College Textbook Research Series Data

Time period	Source and methodology
December 1986 to December 1998	BLS produced the index using data collected for the Educational Books and Supplies CPI series.
December 1998 to December 2001	BLS applied a standard BLS calculation procedure to college textbook price data in order to generate the index.
December 2001 to December 2004	BLS used the published index for college textbooks, which employs quality adjustment methods. ^a

Source: BLS.

^aFor a detailed analysis of these quality adjustment methods, see BLS, *Hedonic Quality Adjustment Methods for College Textbooks in the U.S. CPI* (Washington, DC.: October 2001).

The college textbook CPI is constructed using a probability-based selection process that identifies bookstores as well as textbooks that are assigned for use in courses of higher education. Prices for specific books are taken from a variety of bookstores located on and off campus, as well as from Web-based retailers, reflecting prices at public and private postsecondary institutions, including 2-year, 4-year, graduate, and professional schools. The sample composition changes each year for the following reasons: (1) books assigned to classes change over time,

¹Data for the college textbooks CPI have not been seasonally adjusted. Seasonal adjustment removes the effects of recurring seasonal influences from many economic series, including consumer prices.

(2) some books cycle out of circulation, and (3) a quarter of the sample rotates out annually. Similarly, the sample size for this research series varies over time as sampling procedures are modified and may range from 200 to 500 price quotes. This variation in sample size does not affect the value of the index, though fewer observations may affect the variance of the index. Overall, BLS reports that the response rate for college textbook CPI data collection is very high, 88 percent.

Most of the textbooks included in the sample are designated as required texts for courses offered by the college or university associated with each sampled bookstore. In some cases, the selected textbook may not be available for pricing because the course has been terminated, the course requires a different textbook, or the course is not offered every term. In instances in which the course is no longer offered and the textbook is not used in any other course, then the assigned textbook for a similar course is selected as a substitute. If the textbook is no longer used for the selected course, it is replaced with the textbook that is currently used for the selected course. If the book is temporarily out of use (for example, the course associated with the book is offered only in the fall semester), then the book is listed as temporarily not available and the price change is imputed based on the price changes of the other books.

An important limitation to this research series is that prior to 2001, prices for such substitute books were not usually compared and no adjustments were made for any qualitative changes between the previous and substitute books.² With the introduction of quality adjustment in 2001, the index is adjusted when certain characteristics of a textbook change, such as a move from a major to a smaller publisher or a considerable change in the number of pages. If the new version of the textbook contains substantially different characteristics and quality adjustment values are not available, the price movement is imputed based on the prices of comparable textbooks. Because hedonic quality adjustment is implemented only for the published portion of the research series, for the periods before 2001, the index may have higher variance than the published index, which begins in 2001.

In addition, BLS officials pointed out that textbooks are increasingly wrapped in packages along with additional materials, making it difficult to

²Prices were compared only if the same book or a new edition of the same book was priced.

collect all of the qualitative characteristics of the textbook. If the selected textbook is sold by itself, then only the textbook is priced. However, if the selected textbook is automatically sold with another item, such as a CD or workbook, then the agency must price the entire package. As a result of these packaging practices, it is sometimes difficult for BLS to obtain the information necessary for quality adjustment, and other times the price recorded as the textbook price may also include ancillary materials.

To put changes in textbook prices into the context of other changes in the cost of higher education, we also reviewed CPI data on tuition and fees, which are constructed using a probability-based selection process and reflect the cost of tuition and fees at 2-year and 4-year institutions and professional schools.³

We analyzed data from the Department of Education's (Education) Integrated Postsecondary Data System (IPEDS) to determine the proportion of tuition and fees that expenditures for textbooks and supplies represent.⁴ Specifically, postsecondary institutions estimate the amount first-time, full-time, degree-seeking students will spend for an entire academic year on textbooks and supplies and report on the amount of tuition and fees. IPEDS defines books and supplies as the average cost of books and supplies for a typical student for an entire academic year (or program). Supplies are to include usual costs that are incurred by a majority of students. Supplies required of special groups of students, such as engineering or art majors, would not be counted unless they constituted a majority of students at the institution. The Department of Education has not established a comprehensive definition of what supplies are. However, an Education official told us that supplies can include such things as allowances for personal computers, but such expenses should be reported only if they are required for a majority of students at the institution.

³Since the CPI for college textbooks is not seasonally adjusted, we relied on nonseasonally adjusted data for the overall CPI as well as the CPI for tuition and fees. There are no long-term significant differences between the nonseasonally adjusted and seasonally adjusted indexes.

⁴IPEDS is a system of surveys designed to collect data from all primary providers of postsecondary education. These surveys collect institution-level data in such areas as enrollments, program completions, faculty, staff, and finances. Data are collected annually from approximately 9,600 postsecondary institutions, including over 6,000 institutions eligible for the federal student aid programs.

To assess the completeness of the IPEDS data, we reviewed the National Center for Education Statistics' documentation on how the data were collected and performed electronic tests to look for missing or out-of-range values. On the basis of these reviews and tests, we found the data sufficiently reliable for our purposes. We did not validate the methodology the institutions used to derive their estimates for the cost of books and supplies, and there has been no review of how well these institutional estimates actually predict student spending on textbooks and supplies.

There are other sources available that provide estimates of student spending on college textbooks that we considered, but we did not find these sources to be as complete or reliable as IPEDS. The College Board collects estimates from postsecondary institutions on spending for books and supplies for full-time undergraduate students as part of its Annual Survey of Colleges. While the methodology employed was similar to that used for IPEDS, the survey included responses from a smaller population of institutions than IPEDS. Another source, Student Monitor, estimates spending on college textbooks based on student-reported expenditures. Student Monitor provides market research for those targeting college students as a consumer group. Student Monitor employs a nonprobabilistic sampling methodology using an intercept-based quota sample of 1,200 students covering 100 colleges and universities. Because of the sample selection process used, it cannot be used to estimate to the college student population as a whole for the purpose of addressing a key finding.

To determine what factors have contributed to the change in college textbook prices, we interviewed executives from five of the largest textbook publishers, representing more than 80 percent of new textbook sales; the three national used textbook wholesalers; three companies that operate over 1,300 college textbook retail stores, or 29 percent of stores nationwide; the National Association of College Stores; the Association of American Publishers; and various other industry experts.

To determine what factors have led to differences in the price of some U.S. textbooks in non-U.S. markets, we conducted a review of economic theory and relevant GAO work on differential pricing. We interviewed representatives from textbook publishers, operators of textbook retail stores, and used book wholesalers to determine the extent to which books may be available in other countries at lower prices, their analysis of the reasons behind these price discrepancies, and their concerns about pricing differences.

Appendix II: Consumer Price Index Average Annual Percentage Growth, Academic Years 1987-1988 to 2003-2004

Academic year, September-August	CPI average annual percent increase ^a		
	College textbooks	Tuition and fees	Overall prices
1987-1988 ^b	7.8	7.3	4.0
1988-1989	6.9	8.0	4.7
1989-1990	9.3	8.0	4.8
1990-1991	5.8	8.8	5.3
1991-1992	6.7	11.6	3.0
1992-1993	4.5	9.8	3.1
1993-1994	4.2	7.6	2.6
1994-1995	4.4	6.3	2.8
1995-1996	5.5	5.8	2.8
1996-1997	5.2	5.3	2.7
1997-1998	5.1	4.5	1.7
1998-1999	6.5	3.9	1.8
1999-2000	5.8	4.0	3.1
2000-2001	6.2	4.6	3.3
2001-2002	8.1	6.5	1.6
2002-2003	6.7	7.5	2.3
2003-2004	5.2	9.8	2.3
Average per year, 1987-2004	6.0	7.0	3.0

Source: BLS published Tuition and Fees CPI and overall CPI, unpublished College Textbook CPI research series.

^aData are not seasonally adjusted.

^bAcademic year 1987-1988 shows the growth in prices over the previous academic year, 1986-1987. Data for the 1986-1987 estimate lack the months of September through November, as data became available in December of 1986. As a result, the average price level in 1986-1987 is based on 9 months of data rather than 12.

Appendix III: Comments from the National Association of College Stores



July 18, 2005

Brian E. Cartier, CAE
Chief Executive Officer

Cornelia M. Ashby
Director, Education, Workforce, and Income Security Issues
US Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Ashby,

I am writing in response to your request for comments on the Government Accountability Office (GAO) draft report (GAO-5-806) "College Textbooks." On behalf of the National Association of College Stores, I want to thank you for the opportunity to review and comment on the draft report.

Generally, we believe the report accurately portrays the post-secondary course material industry, and captures many of the key factors affecting course material pricing and costs for college stores and the U.S. students they serve. We appreciate the professional job performed by your staff.

College stores support the goal of making a college education more affordable. It is for this reason that college stores work every day to find ways to reduce cost for students through such activities as buying and selling used books; enhancing the adoption process for faculty through the use of technology; supporting improved communications between faculty and students on the course material requirements of a course; sponsoring student book exchanges; and many other approaches to help students.

With respect to the findings in the report on international differential pricing, NACS supports a "one price" system in which U.S. students are not paying more than non-U.S. students, particularly those in developed countries. U.S. students should not, by themselves, bear the sole burden of course material development costs as the report has found or suffer the consequences of underdeveloped countries' inability or unwillingness to enforce copyright laws. All segments of the textbook industry should be working together to see how we can best maintain the extraordinary high quality of U.S. higher education—which is the envy of the world—without making the price of that education prohibitive to many Americans.

In regard to the critical role of faculty, NACS believes the selection of course materials should rest with faculty who can best determine what textbooks and materials contribute to the learning experience and academic success of their students. While we recognize an extensive study on the role faculty plays in course material development, adoption, and utilization was beyond the scope of this study, we believe faculty roles should be considered as an integral part of any future discussions regarding the availability and accessibility of course materials.

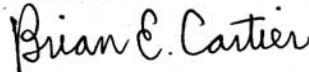
National Association of College Stores, 500 East Lorain Street, Oberlin, OH 44074-1294
Phone: 440/775-7777 • Internet: info@nacs.org WWW: <http://www.nacs.org> • Fax: 440/775-4769

Appendix III: Comments from the National Association of College Stores

We have noted some technical issues in the report that we would like to clarify or correct and have enclosed these comments.

The National Association of College Stores supports efforts to enhance affordable and equitable access to quality course materials, and will continue to work with all parties concerned as an ally for student interests.

Sincerely,



Brian E. Cartier, CAE
Chief Executive Officer

Attachment

Appendix IV: Comments from the Association of American Publishers

Association of American Publishers, Inc.
www.publishers.org



50 F Street, N.W., 4th Floor
Washington, D.C. 20001
Telephone: (202) 347-3375
Fax: (202) 347-3690

July 20, 2005

Ms. Cornelia Ashby
Government Accountability Office
Director, Education Workforce and Income Security Issues
441 G Street, NW
Washington, DC 20548

Dear Ms. Ashby:

The Association of American Publishers, the national trade association of the U.S. publishing industry, appreciates the opportunity to provide comments on the Government Accountability Office draft report on college textbook pricing (GAO-05-806). While we found some aspects of the report to be insightful, we are seriously concerned about the accuracy and overall tone and balance of the draft report. The publishers provided solid evidence that corrected the GAO data, and they shared with you their concerns regarding misrepresentative statements, as well as the assumptive conclusions that the draft report included.

Specifically, the AAP has provided analyses and corrections of two data sources employed by GAO: the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS) report of what students spend on books and supplies, and a Bureau of Labor Statistics (BLS) review of college textbook pricing data.

The GAO intended to use the IPEDS "to gain an understanding of the annual cost of textbooks and supplies for students as estimated by postsecondary institutions." However, as the publishers demonstrated to the GAO, the IPEDS data aggregates school administrator estimates of books and "supplies," which may include computers, calculators, lab equipment, and other materials that represent about 27% of total student spending on books and supplies. Publishers do not produce or market supplies. Independently derived estimates confirm that the average full-time equivalent student spends about \$580 per year on textbooks, far less than the \$898 figure used repeatedly in the GAO draft. GAO has chosen not to use this independent data. Detailed analyses of student spending can be found at the end of this letter.

The second metric the report uses is the BLS data to track textbook price increases. By its own disclaimer, before 2001, BLS data did not accurately reflect the increasing penetration of lower-cost alternatives that are replacing unabridged, hardcover texts. Consequently, BLS data exaggerates textbook price increases over the course of the

1

reporting period. BLS acknowledges "textbooks are increasingly wrapped in packages along with additional materials, making it difficult to collect all of the qualitative characteristics of the textbooks. As a result, it is difficult for BLS to obtain the information necessary for quality adjustment, and other times the price recorded as the textbook price may also include ancillary materials."

Our third critical concern is the tone and objectivity employed by GAO in the titles and subheadings of the draft report. There are frequent instances where conclusion statements and the narrative of the report are judgmental, and include unsubstantiated statements from single sources that create an unbalanced view. We believe the editorial style of the draft report suggests GAO advocacy for used books and used booksellers rather than providing a factual analysis of the industries.

The report does describe in accurate fashion some – but not all, or even, most -- of the choices publishers offer faculty for text selection. As our members have shown, and as could be confirmed by looking at the books available for any college course, there is always a broad range of titles that an instructor can choose for his or her students, and these titles are often at very different price points. The instructors, of course, select what they believe best serves the educational needs of their students.

In sum, we are disappointed to be writing this letter since there is nothing present here that AAP and its members did not present to the GAO during the writing of the report. We believe that this report is being rushed to completion due to deadline pressures, and that with thorough consideration of these comments a more balanced and representative report can be produced.

We recognize that some of our comments may be moot if the GAO chose to incorporate them in their final report, but because we have not had access to that report, we felt it necessary to make our position part of the record. We're proud of our products and services and our expanding role in Higher Education, and we believe our efforts aid in opening opportunities to all aspiring students.

Our more detailed comments address three key issues: (1) Accuracy of Data, (2) Tone of the Draft report, and (3) Draft report's Valuable Insights.

Accuracy of Data

The report's first data source on text price increases, provided by the Bureau of Labor Statistics (BLS), compares dissimilar factors and leads to an incorrect set of conclusions that persist throughout the report. As the report notes, BLS **price** data does not accurately reflect the increasing penetration of lower-cost alternatives that are replacing the traditional unabridged, hardcover texts, a significant trend over the last 10 years.

Further, as noted in the appendix (page 29 of the report), the BLS price index imputes prices based on comparable textbook prices when data is not available and has a higher margin of error prior to 2001. In regard to post-2001 price analyses, BLS acknowledges (page 29) that "textbooks are increasingly wrapped in packages along with additional

materials, making it difficult to collect all of the qualitative characteristics of the textbook...As a result...it is sometimes difficult for BLS to obtain the information necessary for quality adjustment, and other times the price recorded as the textbook price may also include ancillary materials." The standard practice of including quality adjustments in measures of inflation was not done here. As a result, the BLS data exaggerates textbook price increases over the course of the reporting period.

The presentation of the data is misleading because BLS data includes supplements and textbooks, but chart labels and dialogue consistently refer only to textbooks. The Draft report must clarify its data in every case. Finally, BLS numbers, based on the Producer Price Index, do not reflect the labor-intensive nature of the textbook development industry, which relies on intellectual capital.

Other independent research sources, including Student Monitor, LLC, measure student spending on new and used textbooks. Student Monitor data has been included in other GAO reports, but was excluded from this report. Student Monitor research shows that per-capita spending increases for new and used books increased at roughly the rate of inflation in recent years.

Student Spending Increase On Textbooks Per Student Monitor

2000/2001	+ 3.5%
2001/2002	+ 5.4%
2003/2003	+ 2.1%
2003/2004	+ 0.8%

Since the BLS data and the Student Monitor data are so different, we remain very concerned that using BLS as a sole source, while making mild note of its limitations, has the effect of fairly dramatically exaggerating textbook price increases over the data series. Using the BLS data alone, misleads the reader into believing that the price index and the draft report's analysis results are significantly more precise, and more generally accepted, than they are.

Finally, there is no mention at any point in this section that students can recoup up to 50 percent of their costs by reselling their course materials, so any measure of spending overstates how much a student may spend.

The draft report's other source of data, provided by the Department of Education's Integrated Postsecondary Education Data System (IPEDS), employs methodology to report on **costs** that GAO acknowledges they "did not validate." This is curious because the GAO chose to ignore other data on the basis that they could not validate it.

IPEDS pricing information on textbooks and supplies is based on the estimated guess of college administrators, with no instructions from the Department of Education or any attempts to standardize the information. "Supplies," in this case, are not just inconsequential items such as pencils and notebooks but, according to IPEDS, may

include computers, calculators, lab equipment, and other materials that represent about 27% of total student spending on books and supplies, according to the National Association of College Stores. Publishers do not produce or market “supplies.” To refer to materials other than textbooks is very misleading in the current context.

In contrast to the GAO’s use of inaccurate and misleading data, two independently derived estimates (see charts that follow) confirm that the average full-time equivalent student spends about **\$580** per year on textbooks, far less than the \$898 figure used repeatedly in the GAO draft, even taking into account part-time students. In light of the admittedly misleading IPEDS data discussed above, the AAP has requested that GAO revise the Draft to include this independent and generally accepted research and also has asked that GAO use this data to provide the estimated cost to students of textbooks, without including supplies. As noted before, the total cost students spend on their textbooks is not qualified to include the amount they receive from the sale of their used textbooks.

GAO also measures texts and course materials as a percentage of tuition. This is particularly misleading because tuition is independent of the cost of textbooks. This comparison creates the impression that students attending lower-cost institutions are being penalized, when, in fact, they benefit from a comparable educational experience, by virtue of their access to equivalent course materials at exactly the same price paid by any peer at any other higher educational institution. There is neither price discrimination nor dilution of quality based on which school a student attends—all students are treated equally in this respect. The draft states that two-year public institutions are places “where low-income students are more likely to pursue a degree program” – implying with no substantiation that the cost of textbooks is a barrier to access – but fails to acknowledge the diversity of the courses taken by students attending two-year schools, including allied sciences students studying courses that feature the most complex to produce, highly technical course materials such as dental hygiene, radiology and nursing, and students who work full time and do not conform to the draft report’s chosen characterization.

Tone of the Draft Report

Our third critical concern is the tone and objectivity of portions of the report. The draft, for example, presents concerns of used book distributors and advocates without complete balancing information or independent GAO analysis. This approach of citing “concerns” with a subsequent summary rebuttal from publishers leaves the reader with the impression that GAO is advocating a particular point of view in favor of the used book market and used booksellers rather than providing a factual analysis of the industries.

This is especially true in cases where the cited concern is unsubstantiated or refuted by available data. For example, GAO notes that wholesalers, retailers and some public interest groups “...think some of the strategies employed by publishers, such as revising textbooks more frequently, limit the ability students have to decrease their costs by purchasing less expensive used textbooks.” What GAO fails to point out is that available

empirical data indicates that revisions have been very stable at 4 years since at least 1996, the last year of data to which publishers have ready access.

Additionally, we find that the entire section of the report presented on pages 16 – 21 fails to acknowledge publisher efforts to address instructor and student needs and concerns by offering a variety of choices in educational materials at a variety of price points. This section contains conflicting “concerns” from competitors and others that create the impression that publishers efforts to offer low-cost alternatives for instructors and students is somehow wrong, especially when publishers offer particularly steep discounts.

Generally, this section would be greatly improved by the recognition of the central role of the instructor in choosing selected materials, the reasons why publishers offer these choices, including significant cost savings and other benefits generated for students. For example:

- On page 11, paragraph 2, the report states: “*Additionally, wholesalers, retailers, and others have expressed concern about how certain publishing practices, such as...increasing the availability of custom publishing options for instructors, have affected their ability to help students save money by providing used textbooks and buyback services.*”

As presented, this statement provides no discussion of the benefits of custom publishing – such as the increased value to the student because the book is more often used in its entirety and the common up-front cost saving to students who would otherwise have to purchase multiple books for a single course – leaving the reader with the misperception that custom textbooks are inappropriate, not valued by students and increase overall costs to them. The fact is publishers offer instructors a wide range of choices in materials at a variety of price points. The extent to which those products offer increased value or discounted costs to every student up-front should be balanced with concerns that students may not be able to receive additional sums from reselling their textbook on the current national used book market.

- Another example of a statement that lacks balance and appears to be inconsistent with other text in the draft report can be found on page 16, paragraph 2 of the report. The report says, “*Wholesalers, retailers and some public interest groups agree that there has been a proliferation of supplements in recent years, and they have expressed concern about the increasing practice of selling supplements and textbooks bundled together in a package. While wholesalers and retailers do not question the quality of these materials, they suggest the practice of combining these supplements with textbooks limits students' ability to reduce their costs by purchasing less expensive used books and choosing which, if any, supplements they want to purchase.*”

There is no mention that those objecting to bundled supplements on the grounds that potential student re-sale savings are reduced, are objecting even though bundled packages commonly result in a lower overall cost for students compared with buying the items

separately. These savings are obtained by every purchasing student, up-front and can sometimes *exceed* the savings the student would receive from re-selling their used textbook.

The apparent concern that offering bundled packages “limits students’ ability to reduce their costs by purchasing less expensive used books and choosing which, if any, supplements they want to purchase,” appears to be in conflict with their subsequent concern on page 17, paragraph 1, that “...retailers said that because publishers often discount bundles, most of the savings students could expect from purchasing a used textbook would be negated if they bought the supplements separately.”

As written, the wording leaves the reader with the misimpression that publishers have done something wrong by offering instructors the choice of ordering textbooks and integrated materials in a discounted bundled package, and that publishers compound that transgression by offering discounts that are too steep.

In summary, we believe the editorial style of the draft report suggests GAO advocacy for used books to reduce student costs without consideration of any other factors, such as the impact on the quality of a student’s education, low-cost and technological alternatives to the traditional textbook, total cost of textbook ownership, the impact on the price of new books and compensation to authors.

Draft Report’s Valuable Insights

Those sections of the report AAP endorses are the *Concluding Observations* and the section entitled, *The Price of Textbooks Sold in Other Countries Varies according to Local Market Conditions*.

We believe the *Concluding Observations* in the draft report correctly note a number of the more important factors that influence the college textbook sector, and acknowledge the expanded role of publishers in providing increasingly sophisticated learning tools to meet the demands of today’s faculties and students.

For example the report observed that:

- 1) Price increases in textbooks “reflect a change in the characteristics of postsecondary education;”
- 2) “...as teaching and learning have changed with increasing reliance on technology, the nature of the college textbook has evolved from a stand-alone text to the inclusion of a variety of ancillary products designed to enhance the educational experience for instructors and students;” and
- 3) “...publishers are assuming roles that have traditionally belong to postsecondary institutions.”

The section of the report dealing with the economic factors that influence the price of textbooks sold overseas and the efforts publishers are making to limit the re-importation into the United States of those books is balanced and accurate.

Specifically, GAO noted that:

- 1) "Without the addcd revenues from international sales, [publishers] would feel more cost pressure and would have to...increase U.S. prices;
- 2) Publishers price textbooks sold overseas on the basis of "local market conditions and the willingness and ability of students to purchase the textbook" and that they want to make their textbooks "affordable to students in developing countries because of the threat of piracy;"
- 3) Specific factors that publishers consider when making pricing decisions are "income levels, the cost of living, the role of the textbook in the classroom, intellectual property protections, the strength of the local currency, and the prices of competing textbooks sold in that marketplace."

We appreciate your consideration of these significant concerns and look forward to working with GAO to ensure the accuracy and balance of the final report.

Sincerely,



Patricia Schroeder
President and Chief Executive Officer
Association of American Publishers

AAP analyses using independent data sources demonstrates that student spending on textbooks and supplemental educational materials was approximately \$580 in 2003.

Estimated per capita spending on course materials, 2003

Line	Statistic	Value	Source
1	Course Materials purchases, US college stores	\$ 6,230,000,000	NACS
2	Online purchases of textbooks	\$ 261,000,000	Student Monitor
3	Total spending on textbooks and course materials	\$ 6,491,000,000	Line 1 + Line 2
4	Full-time students, 2003 est	8,874,000	Dept of Education
5	Part-time students, 2003 est.	5,584,000	Dept of Education
6	Head-count enrollment	14,458,000	Line 4 + Line 5
7	FTE enrollment (full-time + 1/3 part time)	11,056,330	Line 4 + (Line 5 / 3)
8	Spending on course materials per student	\$449	Line 3 / Line 6
9	Spending on books and supplies per FTE student	\$587	Line 3 / Line 7

Estimated per capita spending on textbooks, 2003

Line	Statistic	Value	Source
1	New textbook sales (wholesale)	\$ 3,007,600,000	AAP
2	Avg margin on new books	23%	NACS
3	Avg markup on new books	30%	Line 2 / 1-Line 2
4	Total spending on new books (est.) at bookstores	\$ 4,289,000,000	Line 1 / 1-Line 3
5	% used books (retail)	29.8%	Bowker (MIR)
6	Total spending on textbooks at bookstores, including used books	\$ 6,110,000,000	Line 4 / 1-Line 5
7	Online purchases	\$ 261,000,000	Student Monitor
8	Total spending on textbooks	\$ 6,371,000,000	Line 6 + Line 7
9	Full-time students, 2003 est	8,874,000	Dept of Education
10	Part-time students, 2003 est.	5,584,000	Dept of Education
11	Head-count enrollment	14,458,000	Line 9 + Line 10
12	FTE enrollment (full-time + 1/3 part time)	11,056,330	Line 9 + (Line 10 / 3)
13	Spending on textbooks per student	\$441	Line 8 / Line 11
14	Spending on textbooks per FTE student	\$576	Line 8 / Line 12

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Cornelia M. Ashby, Director, (202) 512-7215, ashbyc@gao.gov

Staff Acknowledgments

Bryon Gordon, Assistant Director

Debra Prescott, Analyst-in-Charge

Whitney Schott, Analyst

In addition to those named above, Stephen Brown, Jonathan McMurray, and John Mingus made significant contributions to this report.

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